

Commodity Spotlight



Prospects Favorable For U.S. Grape Industry

The U.S. is one of the world's leading grape producers, accounting for 10 percent of the world's grape output—third largest after Italy and France. The U.S. grape industry is also a significant component of the domestic fruit and vegetable sector, with its farm value registering highest among all fruits, nuts, and vegetables harvested for the last 10 years.

During 1996, U.S. growers produced 5.54 million tons of grapes valued at \$2.2 billion, about 20 percent of the total farm value of fruit and nut production and about 11 percent of fruit, nut, and vegetable production. Orange production ranked second, with a value of \$1.9 billion, followed by apples, valued at \$1.8 billion.

USDA's National Agricultural Statistics Service surveys grape production in 13 states, but nearly 90 percent of the U.S. grape crop is produced in California. New York and Washington are the next-largest producers, each harvesting about 3 per-

cent of all domestic grapes. Grapes grown in these two states are used mainly for juice and wine production.

About 85 percent of domestic grape production is processed, nearly two-thirds of which is used in manufacturing wine. More than a quarter is dried for raisin production, while less than 10 percent is used for juice. Additional small quantities go into other processing uses such as jams and jellies. Less than 1 percent of processed grape output is canned.

Fresh grapes, although comprising a much smaller share of total production acreage and output, remain a vital part of the U.S. grape industry. For grapes sold in the fresh market, maintaining consistently high quality is a challenge. Higher production costs and higher product value of fresh grapes reflect production practices that are more intensive than for grapes grown for processing. In 1996, growers in California received \$718 per ton for fresh grapes, compared with \$410 for grapes used for wine and \$231 for those used for raisins. In 1996, 64 percent of the California grapes sold fresh were table varieties and 31 percent were raisin varieties. Wine-variety grapes made up the rest of fresh use.

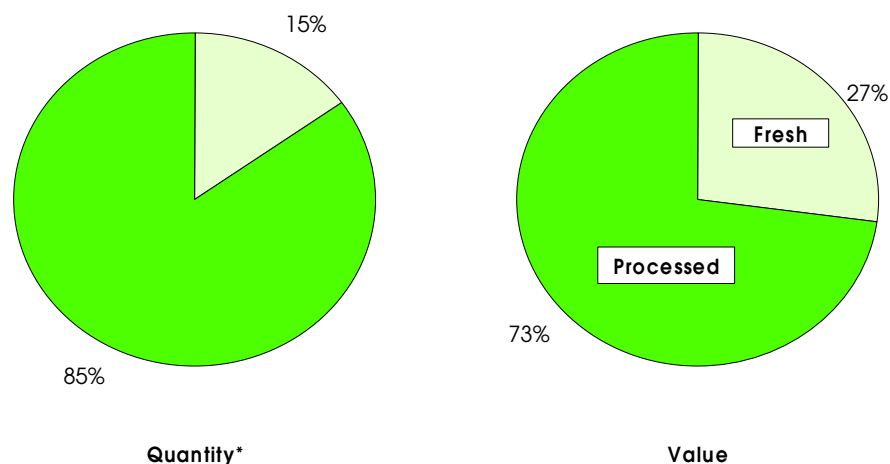
Large 1997 Crop Should Cool Prices

U.S. grape production used for fresh and processing markets in 1996 was 5.53 million tons, down 6 percent from 1995 and down 8 percent from the record 1992 crop. Lower yields resulting from unfavorable weather, primarily in California and Washington, accounted for most of the decline. U.S. fresh-market grape production declined nearly 2 percent from 1995's record output of 852,900 tons.

Reduced production, coupled with increased domestic and export demand in 1995 and 1996, helped strengthen fresh grape prices to growers, with the U.S. average rising from \$581 per ton in 1994 to \$620 in 1995, reaching a record \$727 in 1996. Prior to 1996, the highest price growers had received for fresh-market grapes was \$678 in 1992.

Production of processing grapes also declined in 1996, leading to grower prices 16 percent higher than in 1995, with the season average reaching \$348 per ton, the highest on record. Strong demand for U.S. wines also supported grape prices as an 8-percent decline in California's wine-type grape output led to some diversion of

U.S. Grape Production Is Used Mainly for Processing



*Fresh-weight equivalent.

Source: National Agricultural Statistics Service, USDA, *Noncitrus Fruits and Nuts Preliminary Summary*, January 1997.

Economic Research Service, USDA

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raisin, table, and juice-type grapes. Wine processors used 50 percent more raisin-type grapes and 3 percent more table-type grapes in 1996 than the previous year, although total grape use for wine rose only 1 percent.

Despite increased use for wine, the smaller 1996 U.S. grape crop reduced total processing use of grapes to 4.69 million tons, 7 percent below the previous year and the lowest since 1987. Although grape use for canning rose 3 percent from 1995, use of grapes for juice (including small quantities used for processing jams, jellies, etc.) declined 27 percent, and grapes used for raisins fell 17 percent.

Grape industry sources from the three major producing states (California, New York, and Washington) indicate that their 1997 crops appear to be in good condition. Weather has been relatively favorable for the new crop. There is strong potential for a larger California crop this year, while normal crops are likely for Washington and New York.

California grapevines are generally reported to have high, and large, cluster counts this season. Last year's dry, mild fall induced some early winter bud breaks, and the dry, mild weather this February and March was ideal for pollination and has also supported early and vigorous vine growth. Heavy rains in early January 1997 caused only minor damage to some grape growing areas in Napa Valley and San Joaquin Valley, while a frost in early April did not result in any significant damage. If the expected larger California crop is realized, grower prices will likely see some downward pressure.

Last year, grape production totaled 144,000 tons in Washington, down 44 percent from the state's 1995 crop. In contrast, New York's output of 189,000 tons was up 14 percent from the previous year. This year's relatively mild winter brought very little injury to grape crops in either state. Increased demand for wine grapes has encouraged vineyard expansion and new plantings in Washington. Peak harvest in the state is expected by mid-September. In New York, no bud breaks were reported as of the end of April, but blooms are expected to peak by mid-June.

Based on the bunches that have formed, expectations are that the New York crop will be of average size.

Fresh Grape Consumption On Upward Trend

Analysis indicates a long-term rise in per capita consumption of fresh grapes in the U.S. Part of this growth may be attributed to the heightened interest in healthful diets among American consumers and to increases in real disposable income. Domestic consumption more than doubled from 3.61 pounds per person in the marketing year 1975/76 to a record high of 7.94 pounds in 1989/90. This upward trend reversed in the early 1990's, reflecting several years of reduced production, but in 1995/96 a 5-percent increase in fresh grape production outweighed continued growth in exports, increasing available domestic table-grape supplies by 4 percent from the previous year. Fresh grape consumption recovered nearly 3 percent that season, and following a similar recovery in 1994/95, brought consumption to 7.52 pounds per person.

Trends in domestic consumption of processed grape products vary. U.S. grape juice consumption is generally up in the 1990's—consumption rose from 2.51

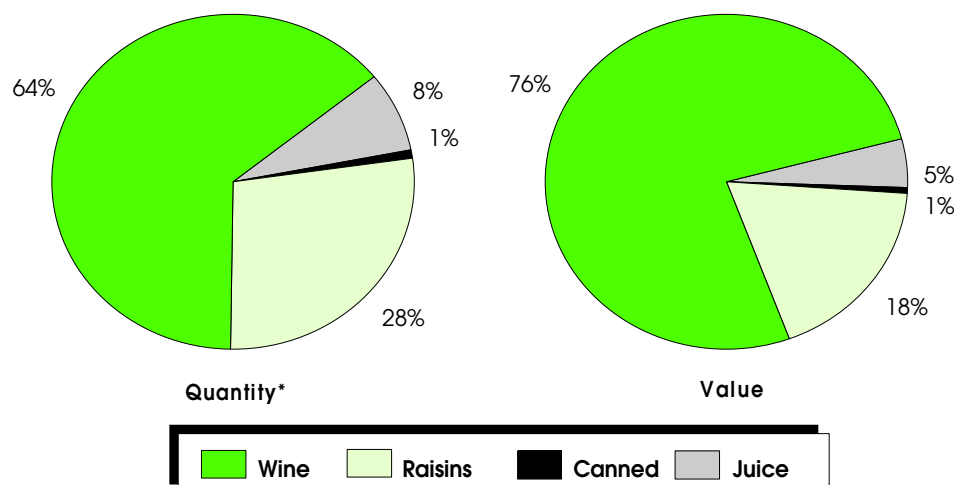
pounds per person (fresh-weight equivalent) in 1990/91 to 4.1 pounds in 1995/96. Larger shares of imports going to juice production in the 1990's compared with the past two decades helped meet both domestic and export demand for juice.

U.S. consumption of raisins, on the other hand, has remained relatively stable in the 1990's at 8-9 pounds per person (fresh-weight equivalent). The U.S. has seen limited growth in per capita wine consumption in the 1990's, as increased demand for American wines has combined with weather-induced production declines of U.S. wine-type grapes, to push wine supplies below average. Canned grape consumption has declined.

U.S. Exports Gaining on Imports

Most grapes produced in the U.S. are used domestically, and the U.S. remains a net importer of grapes for all uses except raisins. The export share of domestic grape supplies has risen, however, from an average of 9 percent in the 1970's to 12 percent in the 1980's and 17 percent in the 1990's. U.S. grape exports (both fresh and processed) increased 18 percent in value between 1990 and 1996, with last year's total reaching \$208.6 million,

Nearly Two-Thirds of Processing Grapes Are Used for Wine



*Fresh-weight equivalent.

Source: National Agricultural Statistics Service, USDA, *Noncitrus Fruits and Nuts Preliminary Summary*, January 1997.

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accounting for 9 percent of the value of domestic production.

Imports have made fresh table grapes available year-round in the U.S., with shipments mostly from Chile but also from Italy, New Zealand, Peru, and Brazil. Most of the U.S. domestic production is marketed from May through December. Beginning in December, as the U.S. supply begins to decline, shipments start to arrive from Chile. From January through April, Chilean grapes dominate the market. Since 1994, small shipments of grapes have also arrived from South Africa during the winter months.

In May and June, the U.S. fresh grape crop again becomes available in limited supply from the Coachella Valley in southern California. Grapes also are imported from Mexico during these months. Both grower and retail prices generally move down after May as domestic and Mexican supplies arrive. From August to November, the U.S. market experiences the largest available supply of fresh grapes, when central California grapes are harvested. Prices usually bottom in August when domestic production is highest, then peak in November as supplies diminish.

U.S. imports of fresh table grapes rose 8 percent between 1994 and 1995, but tighter supplies of Chilean grapes and a decline in Mexican production held growth to 3 percent between 1995 and 1996. With a large crop expected this year in Mexico, U.S. imports of Mexican grapes could increase in 1997. Coupled with the large crop expected in Coachella, an abundance of fresh grapes could be on the market this spring.

The U.S. wine industry

In an upcoming issue of *Agricultural Outlook*

U.S. Signs Grape Protocol with China

On May 14, 1997, the Secretary of Agriculture announced that China has agreed to open its markets to California fresh table grapes. California farmers can sell grapes to China as early as this year's crop, which will begin harvest in July. Access of U.S. fresh fruits to the China market has previously been limited to Red and Golden Delicious apples from Washington, Oregon, and Idaho, and cherries from Washington.

The Chinese prohibition on California fresh grapes had been based primarily on concerns about the Mediterranean fruit fly. Growers in California will be implementing a program of trapping in vineyards to monitor for any fruit fly problems. Chinese inspectors will visit California in mid-June to inspect the trapping program.

Initially, only grapes from Kern, Tulare, Fresno, and Madera Counties will be allowed into China. These four counties produce about 85 percent of California's fresh grapes. Kings County will probably soon be added to this group. Riverside County will be reconsidered for entry into the program in 1998.

Although phytosanitary issues have been resolved, California grapes will still face a stiff Chinese tariff of 55 percent with a 13-percent value-added tax. Despite the high tariff and undeveloped nature of the market, the California Table Grape Commission expects China to be an important market for California grape producers and plans to begin market development activities in China to expand consumer demand.

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Table-grape exports have been growing slowly throughout the nineties. The average annual growth rate of less than 1 percent reflects the strong impact of the Canadian market on total fresh grape exports. Shipments to Canada, the major U.S. market, fell an average of 6 percent per year between 1990 and 1996, as consumer demand reached saturation and began to decline. While shipments to Hong Kong, the second-largest U.S. grape export market in 1996, are only 44 percent of the amount sent to Canada, the Hong Kong market has been growing at 13 percent yearly and is expected to continue to grow.

Taiwan and the Philippines, ranked third and fourth in 1996 among U.S. grape export markets, have shown average annual growth rates of 6 percent and 29 percent since 1990 and are expected to continue strong. Other Southeast Asian markets, including Thailand, Malaysia, and Singapore, while currently small, are expected to increase in importance for U.S. table-grape trade in the future. The

recent opening of the Chinese market to California fresh grapes will likely provide an important boost to exports. The California Table Grape Commission is targeting the region for its export promotion program.

Latin America also offers potential growth for U.S. table-grape exports. Mexico slipped to become the fifth-largest market for U.S. table grapes in 1996 as it continued recovering from economic crisis. However, with U.S. grape exports to Mexico growing at an annual average rate of 67 percent this decade, exports should pick up as the country's economy improves. Among U.S. fresh fruit exports to Mexico in 1996, only apples and pears exceeded grapes.

Phytosanitary issues are preventing some South American countries from importing large amounts of U.S. fresh grapes. In the last year, however, Colombia, Argentina, and Chile have opened their markets. The continuing growth of South American

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economies in combination with the counterseasonality of U.S. and South American grape production could create an increasing demand for U.S. grapes.

The U.S. is the world's largest raisin producer and second only to Turkey in raisin exports. The United Kingdom (U.K.) has been the major market for U.S. raisins, receiving over 20 percent of total U.S. raisin exports throughout the first half of the 1990's.

In 1996, however, raisin shipments to Japan exceeded those to the U.K. If the Japanese market continues to grow 6 percent annually, as it has since 1990, it may become the major destination for U.S. raisins. Other Asian destinations have also shown rapid increases in demand for U.S. raisins, especially Hong Kong, Taiwan, and Singapore—areas of strong promotional efforts under USDA's Market Access Program. The U.S. does not import many raisins, but most of its imports come from Mexico and Chile.

The U.S. is a net importer of grape juice, with most coming from Chile and Argentina. Grape juice imports soared between 1995 and 1996—rising by over 150 percent—for several reasons.

Supplies were reduced by poor grape crops in Washington and Michigan, the major juice producing states, and by the diversion of juice grapes to fill a shortage of grapes for wine production. At the same time, a decrease in the domestic supply of apple juice, a substitute for grape juice, increased demand.

The U.S. does export some grape juice, although it constitutes the smallest component of U.S. grape product exports. Grape juice exports, however, are growing at a faster rate than both fresh grape and raisin exports. During the 1990's, grape juice exports increased at an annual rate of 6 percent in value and 4 percent in volume.

Canada is the major destination for U.S. grape juice. Unlike the Canadian markets for fresh grapes and raisins, which appear to have reached a saturation point, Canada's grape juice market is growing by 10 percent annually.

Japan is the second-largest market for U.S. grape juice exports, but following a rise in exports to Japan early in the 1990's, the market there has declined recently, reflecting the poor performance of Japan's economy during the last few years. U.S. grape juice exports to Japan in 1996 about equaled the amount shipped in 1990. Korean demand for U.S. grape juice, on the other hand, has grown rapidly in the 1990's, accounting for 20 percent of shipments in 1996.

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Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

June

- 13 *Cotton & Wool Outlook*
(4 pm)**
- Feed Outlook* (4 pm)**
- Oil Crops Outlook* (4 pm)**
- Rice Outlook* (4 pm)**
- Wheat Outlook* (4 pm)**
- 18 *Livestock, Dairy, & Poultry*
(12 noon)
- 19 *Sugar & Sweeteners**
- 20 *Agricultural Outlook**
- 24 *U.S. Agricultural Trade*
Update***
- 25 *Europe Update**
- 26 *Agricultural Income & Finance**
- 27 *China**

*Release of summary, 3 pm.

**Available electronically only.

***Release of text only, 3 pm.